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Debt funds: What to expect in November

Prashant Pimple of JM Financial AMC, Sandeep Agarwal of Sundaram MF and Shriram Ramanathan of L&T MF share with us their outlook on the debt market.

Abhishek Kumar Oct 29, 2021

Debt market witnessed volatility in October. The 10-year G-sec yield moved from 6.15% to 6.38%. The upward movement was a result of numerous global and local factors including US Fed's decision on bond buying programme, rise in crude and commodity prices and RBI's decision to halt Government Securities Acquisition Program (G-SAP) programme.

Money market returns moved up a bit during the last month. G-Sec and corporate bonds in the 2-3 year segment also moved up by 10-20 bps, say fund managers.

Where are the yields headed and what's in store for debt funds in November? Here's what fund managers have to say.

What to expect

Prashant Pimple - CIO Debt, JM Financial AMC

- RBI to prioritise growth and ensure adequate liquidity in the system to support the economic recovery
- Lower inflation means RBI sticking to the accommodative stance for some more time
- 10-year G-sec yield to rise gradually. Shorter end of the curve may come under pressure if rate hikes start

Sandeep Agarwal, Sr. Fund Manager - Fixed Income, Sundaram Mutual Fund

- Expect yields to gradually move upwards with short end of the curve outpacing the long end
- Inflation is back in RBI's comfort zone providing the central bank enough time for gradual policy normalisation
- RBI likely to take further steps to bring down market liquidity
- 10-year G-sec expected to trade in the range of 6.25%-6.50%

Shriram Ramanathan, Head of Fixed Income – L&T Mutual Fund

- RBI is likely to move further towards policy normalisation. The next steps could be further absorption of excess liquidity, change in stance to 'neutral' and finally a rate hike
- Shorter end of the curve (0 to 5 years) is likely to remain under some pressure
- Long term yields (5+ years) face pressure due to the halt in GSAP programme but the likely inclusion of Indian government bonds in global indices will lend support
- 10-year G-sec yield may move into the 6.5-7% range over the next few quarters

What to recommend

Prashant Pimple

- For investment horizons of 36 months or more, dynamic bond funds is a good option

Sandeep Agarwal

- Ultra-low duration funds best suited for an investment horizon of 1 to 3 months
- For 3 to 6 months horizon, low duration funds are most suited
- Short term, banking & PSU and Corporate bond funds are suitable for an investment horizon of 1 to 3 years

Shriram Ramanathan

- Short term bond funds and banking & PSU funds are best suited for investors looking to ride the upward rate cycle over the next 2-3 years
- For long term investment, distributors can recommend corporate bond funds

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